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STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
OFFICE OF FINANCIAL AND INSURANCE REGULATION
R. KEVIN CLINTON
COMMISSIONER

STEVEN H. HILFINGER
DIRECTOR

DATE: October 9, 2012

LETTER NO.: 2012-CU-03

TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: The purpose of this letter is report to the credit union industry the activities of the Credit Union Division of the Office of Financial and Insurance Regulation over the 2011 calendar year.

The Credit Union Division regulates and supervises state-chartered credit unions under the authority of the following statutes:

- Michigan Credit Union Act (2003 PA 215)
- Credit Union Multiple-Party Account Act (1968 PA 41)
- Beneficiary Accounts Act Credit Union Regulation (1992 PA 31)
- Electronic Funds Transfers Act (1978 PA 322)

The division ensures Michigan's state-chartered credit unions are operating safely and soundly, public confidence in the system is maintained, and the interests of depositors, creditors, and shareholders are protected. Under the MCUA, OFIR issued three memorandums of agreement to credit unions during 2011 and issues one stipulated prohibition from further industry involvement to an individual.

The Credit Union Division staff is comprised of 48 full-time employees. The Examination section consists of 42 full-time employees and includes 35 examiners whose primary function is to examine the condition of credit unions, five examiners who perform IT related examinations in state chartered credit unions, banks and their third-party service providers, one administrative assistant deputy commissioner and one support employee. The Corporate Review section includes four staff members responsible for corporate activities of all Michigan chartered depositories. Administratively the Division includes one support employee and a deputy commissioner.

The division provides extensive staff training and professional development opportunities. During 2011, staff members attended training sponsored by the National Credit Union Administration (NCUA), the National Association of State Credit Union Supervisors

(NASCUS), and other professional organizations. In 2011, OFIR initiated its first Michigan Industry Day as a forum for regulated credit unions and all Credit Union Division staff members to jointly discuss issues relevant to the industry, including the examination process.

The Michigan Credit Union Act requires Michigan credit unions to be federally insured. The division works with the NCUA, which administers the National Credit Union Share Insurance Fund (NCUSIF), to manage NCUSIF risk. NCUA places substantial reliance on the division's examination and supervision activities, and NCUA and division management meet as necessary to discuss emerging issues, institutions requiring more than normal supervision, and other matters of mutual interest.

ACTIVITY SUMMARY

Examination and Supervision

The division uses a "risk-based" examination process, focusing on material areas of risk unique to each credit union. Credit unions are monitored between examinations using financial reports and other information filed by each institution.

During 2011, division staff completed 243 safety and soundness reports on 172 state-chartered credit unions (including Central Corporate Credit Union). Division reports included 169 examinations and 74 follow-up visitations at credit unions requiring additional supervision. Fifty-eight examinations and 53 follow-ups were conducted jointly with the NCUA. Division staff also performed information technology examination reports at 46 credit unions and several third-party service providers during the year.

OFIR completed the application and approval process for 10 mergers, 21 field of membership expansions and nine bylaw changes throughout 2011.

INDUSTRY TRENDS

The number of Michigan state-chartered credit unions declined from 201 to 194 during 2011, primarily due to mergers between institutions.

While generally market driven, mergers also occur because of serious operational or safety and soundness concerns. Larger, well-run credit unions can absorb troubled institutions with minimal negative impact and often provide a higher level of financial services for the members of the merged credit union.

Overall, Michigan's state-chartered credit unions remained in sound financial and operational condition during 2011. Although the number of Michigan credit unions declined, total assets (excluding Central Corporate Credit Union) increased 5% or \$1.4 billion to \$29.7 billion.

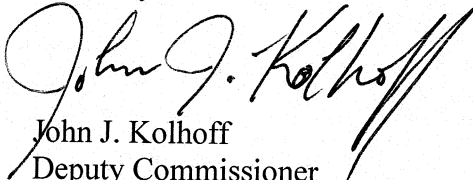
Industry Associations

Division senior staff members were featured speakers on various topics for meetings of the Michigan Credit Union League, the Michigan Association of Certified Public Accountants and other organizations.

Assistant Deputy Commissioner Leanne O'Brien is involved as an Educational Committee member with NASCUS, working to enhance educational opportunities for examiners and the credit union industry.

During 2011, Credit Union Division Deputy Commissioner John J. Kolhoff was elected to the NASCUS Board and continued his activity as a member of the following committees: Education Committee; Education Certification Subcommittee and Legislative and Regulatory Committee. Kolhoff sits as a trustee on the National Institute of Credit Union Examination (NISCUE), a group responsible for supporting examination education initiatives for state examiners through funding provided by regulated institutions. Kolhoff is also a state liaison member of the Information Sharing Task Force of the Federal Financial Institutions Examination Council, working to ensure data integrity between the financial institution regulators.

Sincerely,


John J. Kolhoff
Deputy Commissioner
Credit Union Division